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SUBJECT: WHITHER U.S.-MONGOLIA RELATIONS?

Classified By: Ambassador Pamela J. Slutz; Reasons 1.5(B) and (D)

11. (U) As I conclude my three-year tour as chief of mission in Mongolia, I offer the following reflections on the past and recommendations for the future, as we pursue the "comprehensive partnership" with Mongolia that was first enunciated in the July 2004, and reaffirmed in the November 2005, Joint Presidential Statements.

U.S. Interests vis-a-vis Mongolia  
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12. (U) To paraphrase a portion of the 2004 US-Mongolia Joint Presidential Statement: It is in the national interests of the U.S. that Mongolia be a democratic, prosperous, and secure "partner" which promotes friendly relations with its immediate neighbors; is an active participant in regional and international economic, political, and security forums; and supports U.S. global policy objectives.

13. (C) Mongolia is not of strategic importance to the U.S., at least not in the conventional defense and security context. Mongolia is too geo-politically, economically, and demographically challenged (i.e., landlocked between Russia and China, far from U.S. markets, and sparsely populated) to be a strategic partner. And, Mongolia cannot afford to estrange its immediate neighbors, Russia and China, by becoming associated with U.S. military/security objectives vis-a-vis either of these countries.

14. (C) Rather, Mongolia's value to the U.S. lies in it becoming a base of democracy in an otherwise unfriendly region. Mongolia's transformation into a democracy and market economy has been largely peaceful, free and fair -- in contrast to other post-communist countries in Central and East Asia as well as to some so-called democracies in Southeast Asia. Indeed, during the height of the ideological confrontation between "Asian values" and "Western values" in the 1990s, Mongolia joined the debate by rebuking Malaysian Prime Minister Mahathir during a 1997 visit to Mongolia and heralding itself as the prime example of where Asian and Western values (of democracy) are one and the same. For the past year, Mongolia has been both the president of the International Conference on New and Restored Democracies (ICNRD) and a member of the Community of Democracies Convening Group.

¶5. (C) With continued encouragement and technical/financial assistance from the U.S. and other democracies, Mongolia could play an important role in promoting freedom and (true) democracy around the world. Our assistance, since 2000, to help Mongolia develop an international peacekeeping capability is a case in point. Peacekeeping permits Mongolia to modernize its 7,000-man armed forces and bring them up to international inter-operability standards. It also enables Mongolia to develop a modest national security force that is non-threatening to its neighbors yet capable of securing Mongolia's borders against terrorism and transnational crime.

As a direct result of our assistance, Mongolian soldiers today serve not just in Iraq and Afghanistan, but have begun to venture on peacekeeping missions elsewhere, including Sierra Leone and Kosovo. As we help Mongolia build its peacekeeping strength from a battalion to a brigade in the next few years, Mongolia will become a familiar and stalwart presence in more world hotspots.

¶6. (C) With a better (western) educated populace, wider integration into regional and global organizations, and greater confidence in building and managing bilateral and multi-lateral relationships beyond its traditional immediate neighbors, Mongolia could, in many respects, become the Poland of Northeast Asia. Mongolia shares many of our values and strategic interests (i.e., denuclearization of the Korean Peninsula). Mongolia has provided a friendly, cooperative environment for monitoring developments in China, North Korea, and the Russian Far East; and for facilitating the transit of North Korean refugee-migrants from North Korea via China to South Korea. Mongolia has already initiated the process of integration with important regional and global organizations -- ARF member, OSCE Partner, SCO observer -- and needs only to become a member of the Northeast Asia

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Cooperation Dialogue (NEACD), APEC, and the NATO Partnership for Peace to achieve its goal of being fully integrated into the trans-Eurasian community, stretching from the Pacific Ocean to Western Europe.

Mongolian Interests vis-a-vis the U.S.

¶7. (C) For Mongolia, the U.S. is not only a source of tangible and moral support for Mongolia's transformation from authoritarian communism to a market-oriented, democracy. More importantly, the "comprehensive partnership" with the U.S. strengthens Mongolia's sense of security and confidence vis-a-vis its historically aggressive and hegemonistic immediate neighbors, Russia and China. Mongolia has been independent since 1924, but not sovereign over its own territory until the first democratic elections were held in July 1990 (and the last Russian soldier departed at the end of 1992). Maintaining that sovereignty, in the face of political and economic pressure from its former colonial powers, Russia and China, is the real challenge facing Mongolia today. As one former Mongolian Prime Minister put it succinctly: "We decided on the democratic, market economy path in large part to distance and free ourselves from our two immediate and hegemonistic neighbors. Democracy is how we maintain our sovereignty. Only by developing and integrating ourselves with other democracies and market economies, particularly with our "third neighbors" such as the U.S., Japan, South Korea, and Germany and with regional organizations, can we develop our people and guarantee our sovereignty."

¶8. (C) Mongolia will need -- and deserves -- not only our moral support but also long-term tangible technical and financial assistance, trade and investment to enable it to develop and prosper. and to deal effectively with its two large neighbors. As President Bush said in Ulaanbaatar last November, the United States is proud to be a "third neighbor" of Mongolia. The third neighbor policy was developed by Mongolia in the early 1990s to reach out to democratic,

market-oriented countries beyond its immediate two neighbors.

Mongolia cultivates other third neighbors -- among them, Japan, Germany, South Korea and Turkey -- but we are the only superpower, with all that status entails.

¶9. (C) Both China and Russia regard Mongolia as their "backyard," and both vie for influence with each other -- and with "third neighbors." Mongolia's refusal thus far to upgrade its status from observer to member of the Shanghai Cooperation Organization (SCO) is one indication of Mongolia's cautious, balancing approach to managing relations with its immediate and third neighbors. Mongolians retain a visceral dislike and distrust of the Chinese (to include sinicized ethnic Mongols in Inner Mongolia); this is expressed in legal restrictions and quotas on the number of Chinese permanent residents in Mongolia. The current PRC ambassador, one of the "new" young and sophisticated types that the PRC has assigned throughout Asia, frequently complains that, despite his government's outreach to the people and government, he has made no headway against deeply held prejudices against his country. Few Mongolians study in China (despite offers of scholarships) and Chinese is not offered as a foreign language in schools. And, while China is salivating over Mongolia's rich mineral resources, the Mongolians have put an unwritten cap on Chinese investment in the mining and energy sector.

¶10. (C) The Russians, in contrast, enjoy much higher popularity ratings among Mongolians. There is appreciation for their help in gaining Mongolia's independence from China and for the economic, social and financial assistance provided by the Soviet Union for nearly 70 years. At the same time, however, the Russians are unwelcome and deprecated for their abrupt abandonment of Mongolia in the early 1990s. Russia's demand for repayment of \$11.4 billion in loans provided to Mongolia since the early 1970s bedeviled relations until the end of 2003, when Russia accepted a \$250 million cash payment in settlement -- a 98% discount. In the past year, the Russians have begun to pay more attention to Mongolia, perhaps in part because of competition with China (and the U.S.) for influence and natural resources in

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Mongolia. However, Mongolia has made clear that Russians will have to get in line; they will enjoy no special preference and will have to compete with other foreign investors for mining, energy, and transportation project tenders.

#### Building on a Solid Foundation

¶11. (SBU) Next January, the U.S. and Mongolia will celebrate the twentieth anniversary of the establishment of diplomatic relations. Over the past twenty years -- and particularly since 1990 -- a solid foundation has been built. Yet, much remains to be done. Let me describe five such steps.

¶12. (SBU) First, we need to resolve with Mongolia the form and content of an agreement describing our bilateral relations. Mongolia has proposed that we formalize the "comprehensive partnership" agreed to in the July 2004 Joint Presidential Statement. In February, 2006 the U.S. presented Mongolia with the draft of a non-binding Declaration of Principles for Closer Cooperation. Mongolia agreed with the content of the draft declaration, but is holding out for a formally negotiated "comprehensive partnership agreement" (modeled on the U.S.-Singapore Strategic Partnership Agreement) that would commit the two sides to negotiate separate agreements in a number of areas, first and foremost on Mongolia's list -- a Free Trade Agreement. I fully concur with the USG position taken in February that the Singapore model is not appropriate. Instead, we should offer to sign the non-binding Declaration of Principles and to negotiate a series of stand-alone MOUs or agreements to cover the multifaceted elements we envision including in the

partnership. We have already started the ball rolling. In April, we proposed concluding an agreement on cultural preservation that will enable the U.S. to retrieve and return to Mongolia priceless religious and cultural artifacts and dinosaur fossils that are being smuggled illegally out of Mongolia in growing numbers for sale to western (including U.S.) buyers.

¶13. (SBU) Second, more agencies, especially at the Under Secretary level and above, need to visit Mongolia. The past two years has witnessed a positive upswing in our bilateral relationship, leading with the exchange of presidential visits in 2004 and 2005. I sincerely hope that we can sustain the pace of such exchanges, particularly on the civilian side. We see many more visitors coming here from DOD than any other USG agency; that ratio does not, to my mind, reflect the true nature of our relationship and of U.S. interests in Mongolia. Our work plan for the bilateral relationship should seek to fully reflect our diverse ties with Mongolia.

¶14. (SBU) Third, we should continue to help Mongolia spread its wings internationally; we will generally find them a like-minded friend. Our support for Mongolia's inclusion in the Convening Group of the Community of Democracies was a good example. We should actively support Mongolia's participation in the track two Northeast Asia Cooperation Dialogue at the earliest opportunity. In 2008, Mongolia faces an uphill battle against Iran to represent Asia on the UN Security Council. We should begin to strategize with Mongolia about how to win this battle.

¶15. (SBU) Fourth, the U.S. needs to engage more actively in public diplomacy, cultural and educational exchanges, including providing more paid opportunities for study and training in the U.S. This will require new resources -- but much less than in countries where we are trying to turn skeptics into friends. Here, we will be acting to safeguard and expand our influence. While not "pro-U.S.," the average Mongolian has a genuinely and generally positive view of Americans and the United States. However, there is a lot of ignorance about the U.S. We need to be sensitive to a lingering suspicion of the U.S., as well as of democracy and a market economy, among the political elite. We would do well not to take the Mongolian people's support for granted.

¶16. (SBU) Our target audience should be the two-thirds of the population which is under the age of 30, and women and the

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Kazakh (Moslem) minority in particular. Women constitute three-quarters of the university enrollment and the same proportion of professionals (lawyers, judges, doctors, teachers, civil servants) but are under-represented in national and local decision-making. Through our alliance with the multi-partisan National Forum for Women in Politics and Governance we are helping to train women to run for elected office in 2008.

¶17. (SBU) More and more Mongolians want to study in the United States. In recognition of the importance of western (American) education, in 2005 the Government declared English to be the second national language and English is now mandatory from grade five. If we are to build our base of influence here, we need to seize the opportunity to educate as many of the next generation as possible, either in Mongolia (e.g., through the Peace Corps and our new ESL Micro-Scholarship program) or in the United States (e.g., more Fulbright, Humphrey, Eisenhower fellowships). We doubled our Fulbright fellowships this year (from 3 to 6) and I would hope that we can sustain, if not increase, this number. This year we had a bumper crop of new Peace Corps Volunteers (55) and expect next year's group to number around 60, bringing the total in Mongolia to 115 or so.

¶18. (SBU) We have very good relations with younger,

western-educated politicians likely to come to positions of power and authority in coming years, including many young women. But we should seek to expand and deepen our influence with this next generation through more IVP grants, study tours, internships with private companies and USG agencies, mid-career professional training, and congressional exchanges and fellowships. Were I to have \$100 million to invest in Mongolia's future, I would put it in an interest-bearing bank account and use the interest to send qualified students and mid-level professionals to the United States for as long as it takes to develop a cadre of western-educated technocrats and western-oriented politicians.

¶19. (C) Last, but not least, we should work with Mongolia to get its house in order so that is a more effective partner. Mongolia's transformation into a democracy and market economy is far from complete; democratic behavior and norms have yet to be institutionalized. We will need to use what leverage we have -- such as the prospect of an MCA Compact early next year and a Free Trade Agreement sometime in the future -- to encourage Mongolia to continue economic and political reform.

Mongolia is currently eligible for MCA, but still falls short in many areas: lack of a well-articulated national development strategy; a pervasive lack of transparency in government transactions; corruption, including widespread disregard for conflict of interest among elected and appointed officials; a combination of populism and lingering attachment to the state's role in the economy which are detrimental to the development of a friendly environment for foreign and domestic investment; police abuse of suspects and jail inmates; and an abysmal percentage of women among elected and civil servant decision makers.

¶20. (C) In addition, the fact that Mongolia allowed its program agreement with the IMF to lapse entirely in July 2005 should give us pause. According to some senior Mongolian officials at the time, the prospect of an MCA windfall encouraged the government to "throw off the burdensome conditions" imposed by the IMF. To date, Mongolia has shown no interest in negotiating a new program with the IMF and, worse, has resisted USG and IMF calls for fundamental reforms in the banking, budgetary, monetary and financial regulatory sectors.

¶21. (C) Mongolia recently passed anti-money laundering legislation and the first of many anti-corruption laws. Passing legislation is the easy part; effective implementation may prove much more difficult. In addition, Mongolia has not adequately addressed our concerns about trafficking in people, concerns which first put Mongolia on the Tier Two list in 2005. When parliament reconvenes in October, we should continue to press for the additional anti-corruption legislation necessary to bring Mongolia into compliance with its obligations under the UN Convention Against Corruption; for anti-terrorist financing legislation;

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and for accession to the Palermo Protocol.

¶22. (SBU) We should be willing to add resources where and when necessary to help Mongolia get its house in order. This should include restoring the annual USAID budget for Mongolia to \$10 million. Dollar for dollar, the Mongolia program is among USAID's most effective -- and cost efficient -- assistance programs. USAID's engagement here, in private sector-led growth and good governance, is responsible for laying the foundation that enabled Mongolia to qualify for MCA. And USAID's continued investment in and attention to the private sector and good governance will help make it possible for Mongolia to continue to re-qualify, even after it signs a Compact. We should also begin in the next year to provide a new and substantial level of technical assistance to train Mongolia's law enforcement personnel so that they can support our global efforts to combat trafficking in people, drugs, counterfeit currency, and terrorism. The police and other law enforcement personnel remain, in my



mind, the "weak link" in Mongolia's democratic transition.

¶23. (C) As we proceed, we should keep in mind that Mongolia currently lacks the capacity to design and implement the policies and programs necessary to achieve sustainable economic growth. Specifically, Mongolia lacks western-educated, apolitical, well-paid, private and public sector professionals who are able to grasp the principles of and implement private sector-led growth and rule of law, the two determinants of sustainable economic growth. This lack of capable manpower is probably the single, largest obstacle to Mongolia's ability to move forward. The bulk of the current political leaders and senior bureaucrats are of a generation that was educated in the former Soviet Union and steeped in socialist doctrine, government by fiat, and central planning. On top of this, the social fabric of a small, inter-related populace abhors competition with its winners and losers and encourages a lowest-common denominator consensus approach to decision-making. Not surprisingly, both these factors have contributed heavily to the current frustration (on both sides) over the slow progress of developing an MCA Compact proposal.

Moving On  
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¶24. (SBU) As I prepare to leave Mongolia, it is with immense gratitude for the professional (and personal) opportunity to represent the American people here as well as for the support of a small but capable Country Team and two consecutive exceptional Mongolia desk officers in EAP/CM.

¶25. (SBU) Our relationship with Mongolia is largely a success story. In a world filled with far more complicated and pressing problems, it therefore runs the risk of being neglected. I am confident that with a modest amount of attention and resources our relationship with Mongolia will continue to be a success story for many years and ambassadors to come.

SLUTZ